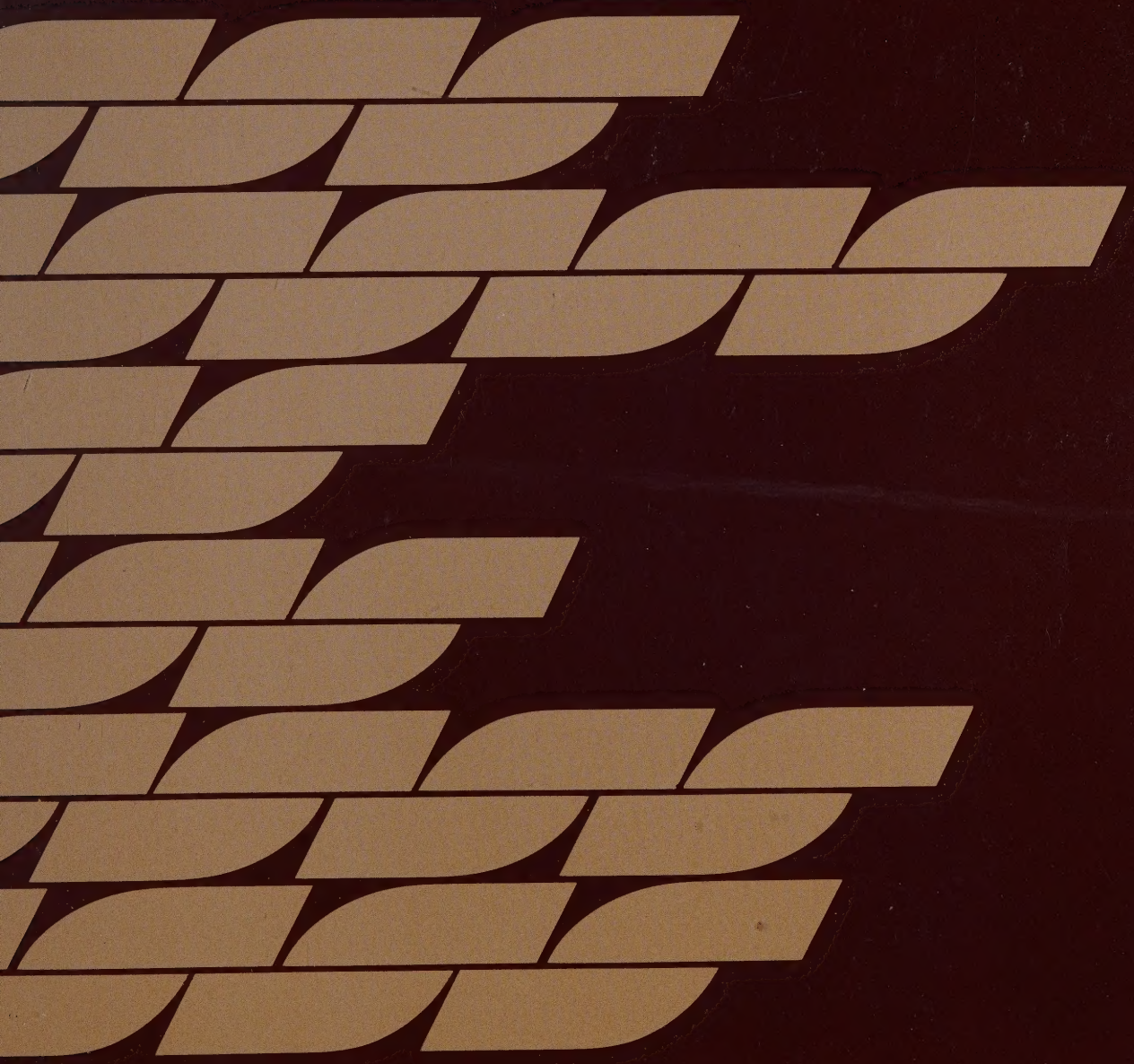
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# SULPETRO LIMITED

## ANNUAL REPORT 1980



## About the Company

Sulpetro Limited is a Canadian-controlled company with head office in Calgary, Alberta. It has been actively engaged for fourteen years in acquiring petroleum and natural gas rights in Canada and in the exploration for and the development of hydrocarbons.

Although most of the Company's activities are in Alberta, its land and exploration activities extend into British Columbia, the Yukon, the Northwest Territories, the Arctic Islands and east coast offshore. The Company is represented in the United States by its wholly-owned subsidiary Petrosil Resources Inc. and internationally by its affiliate, the International Energy Development Corporation.

## Annual Meeting of Shareholders

The annual meeting of shareholders will be held at the auditorium, third floor mezzanine at Bow Valley Square 2, 205 Fifth Avenue S.W., Calgary, Alberta, February 19, 1981 at 10:00 a.m.

## Contents


| | |
|---|---|
| Highlights of the Year | 1 |
| Statistical Highlights | 2 |
| Report to Shareholders | 3 |
| Operations Review | 7 |
| Canada | |
| Land | 7 |
| Drilling | 7 |
| Exploration | 8 |
| Reserves | 13 |
| Production | 14 |
| Gas Marketing | 15 |
| Oil Sands Development | 17 |
| United States | 17 |
| International | 19 |
| Financial Review | 21 |
| Financial Statements | 24 |
| Notes to Financial Statements | 27 |
| Five-Year Financial Summary | 32 |

## Highlights of the Year

- The Company participated in the drilling of 200 working interest and overriding royalty interest wells in Canada during 1980, an increase of 31 percent over the previous year.
- Our Canadian exploration and development program resulted in the addition of 3.12 billion cubic metres (111 billion cubic feet) of proven gas reserves together with 0.34 million cubic metres (2.1 million barrels) of oil and natural gas liquids during the year.
- Revenue from oil and gas sales in Canada rose to $17 million, an increase of 154 percent over the previous year. Cash flow from operations was $9.6 million, compared to $2 million in 1979. Net income was $2.6 million, compared to a $9,000 loss recorded in the previous year.
- Esso Resources Canada Limited assumed approximately $9.7 million of expenditures on behalf of Sulpetro in the Elmworth-Wapiti area of Alberta and Brenda Mines Ltd. continued its earning program under the terms of a previous joint exploration agreement entered into with the Company.
- The Company concluded a $9 million joint venture exploration agreement with the British Columbia Resources Investment Corporation on a number of prospect areas developed by the Company in Alberta.
- Negotiations were concluded with Dome Petroleum Limited for a $22 million program of heavy oil exploration, development, and enhanced recovery projects on the Company's lands in the Irish area of Alberta.
- The Company, as a 15 percent participant, entered into a three-year, $60 million joint venture agreement with Columbia Gas Development of Canada Ltd. on lands located both onshore and offshore Canada.
- The Company's application to export gas to the United States was approved by the National Energy Board of Canada and United States regulatory authorities, and deliveries commenced near Niagara Falls in August 1980.
- A $25 million public offering of 1,250,000 convertible preferred shares was fully subscribed.
- The Company completed the acquisition of Petrosil Resources Inc. of Dallas, Texas, a U.S. corporation engaged in acquisition, exploration and development of oil and gas properties in the United States.
- International Energy Development Corporation, an affiliate of the Company, entered into two major exploration projects in Australia and the Sudan.

# 1980 Statistical Highlights

**Land Holdings**

| | | |
|---|---|---|
| Gross Working Interest Lands | 2,165,870 hectares | (5,414,675 acres) |
| Net Working Interest Lands | 464,049 hectares | (1,160,122 acres) |
| Gross Royalty Interest Lands | 49,652 hectares | (124,130 acres) |

**Drilling Activity**

| | Successful | | Dry and | | Drilling |
|---|---|---|---|---|---|
| | Gas | Oil | Abandoned | Total | Success Percentage |
| Gross Working Interest Wells | 101 | 4 | 32 | 137 | 77 |
| Net Working Interest Wells | 22.9 | 0.8 | 4.2 | 27.9 | 85 |
| Gross Overriding Royalty Wells | 22 | 14 | 27 | 63 | 57 |

**Remaining Reserves**

| | | | Percentage Change From 1979 |
|---|---|---|---|
| **Natural Gas** | | | |
| Proven | 9.67 billion cubic metres | (343.3 billion cubic feet) | +43 |
| Probable | 4.70 billion cubic metres | (166.8 billion cubic feet) | − 1 |
| TOTAL | 14.37 billion cubic metres | (510.1 billion cubic feet) | +25 |
| **Crude Oil and Natural Gas Liquids** | | | |
| Proven | 0.73 million cubic metres | (4.57 million barrels) | +84 |
| Probable | 0.15 million cubic metres | (0.96 million barrels) | +51 |
| TOTAL | 0.88 million cubic metres | (5.53 million barrels) | +77 |

**Production**

| | | | Percentage Change From 1979 |
|---|---|---|---|
| Average Daily Natural Gas Production Rate | 639.9 thousand cubic metres | (22.7 million cubic feet) | +49 |
| Average Daily Crude Oil and Natural Gas Liquids Production Rate | 22.5 cubic metres | (142 barrels) | +608 |

# Report to Shareholders



Sulpetro Officers. From left to right sitting — M. A. Nazarchuk, J. P. Saunders, G. A. Van Wielingen, N. E. Frost. Standing — M. W. Stewart, W. L. Mitzel, D. J. Bobyn, R. L. Harrop, L. S. Manz, J. G. Fletcher, R. S. Marshall, M. W. Mychaluk.

In 1980, your Company recorded substantial increases in gross revenues, cash flow and net income. Production volumes for natural gas and liquids increased sharply over 1979 totals. Late in the year, the Company commenced direct gas export sales to its own customers in the United States. The level of capital expenditures was comparable to that incurred over the past several years, however, by virtue of several joint-venture agreements entered into with other companies, substantial additional funds were expended by them on the exploration and development of the Company's properties. Significant growth was achieved in oil and natural gas reserves.

As part of the Company's strategy to expand beyond normal conventional exploration areas in the western sedimentary basin, a joint-venture agreement was entered into with another company to explore for hydrocarbons in the frontier areas of Canada. At the same time, acquisition was completed of a United States company, Petrosil Resources Inc., (Petrosil) which will provide a ready vehicle for the Company's participation in the attractive U.S. oil and gas industry. Internationally, the Company participated in the review and/or acquisition of a number of major exploration projects world-wide through its affiliate company, International Energy Development Corporation (IEDC).

Our Company's success in 1980 could not have been achieved without the dedicated efforts of our employees.

## Canadian Activities

### Operating and Financial Results

Combined working interest and equivalent overriding royalty interest gas production increased by 49 percent over the previous year to an average of 640 thousand cubic metres per day (22.7 million cubic feet per day). The bulk of the new production came from the Elmworth-Wapiti area and from fields supplying Sulpetro's new gas export project. Oil and natural gas liquids production averaged 23 cubic metres per day (142 barrels per day), an increase of 608 percent over 1979.

Total revenues, including one month's consolidated results of Petrosil, increased to $19.6 million in 1980 from $7.3 million recorded in the previous year. This gain resulted from substantially increased production, higher interest income and improved product prices. Cash flow from operations increased from $2 million to $9.6 million in 1980, and net income was $2.6 million, compared to a $9,000 loss in the previous year.

Capital expenditures in 1980 totalled $37.8 million, a 12.1 percent increase over the $33.7 million expended in 1979.

During the first quarter, the Company made an offering to the public of 1,250,000 convertible preferred shares, at a price of $20.00 per share. The issue was fully subscribed and raised $25 million before commissions and expenses.

### Exploration and Development

The Company participated in the drilling of 200 working interest and overriding royalty interest wells during 1980, of which 195 were drilled in Alberta, two in British Columbia and three offshore the East Coast of Canada. A total of 123 wells were completed as gas wells, 18 were potential oil wells and 59 were dry and abandoned. The success ratio of 77 percent achieved from the working-interest activity was the highest recorded in the Company's history.

Our exploration and development program resulted in the addition of 3.1 billion cubic metres of proven gas reserves (111 billion cubic feet). This increased the Company's proven remaining reserves at October 31, 1980 by 43 percent to 9.7 billion cubic metres (343 billion cubic feet) after allowance for production of 234 million cubic metres (8.3 billion cubic feet) during 1980. Proven reserves of oil and natural gas liquids increased 84 percent from 395 thousand cubic metres (2.5 million barrels) to 727 thousand cubic metres (4.6 million barrels) after allowance for production of 8 thousand cubic metres (51 thousand barrels) during the year.

Sulpetro was active at Alberta Crown sales in 1980 and although prices continued at record levels, we were successful in acquiring 40,160 gross hectares (100,400 gross acres) or 18,398 net hectares (45,995 net acres) for a cost of $4.9 million.

The Wapiti gas plant in the Elmworth area, the Company's largest operated plant, came on stream November 1, 1979. Its initial capacity of 1.4 million cubic metres per day (50 million cubic feet per day) was expanded to 2.1 million cubic metres per day (75 million cubic feet per day) in the fall of 1980 in anticipation of a higher contract delivery rate following contract redetermination during 1980. Five new gas plants in which Sulpetro has substantial working interests commenced production late in the year to supply the Company's 1.5 million cubic metres per day (53 million cubic feet per day) gas export project. Two of the plants are Company-operated.

**Gas Marketing**

As a result of unsatisfactory marketing conditions Sulpetro decided in early 1978 to pursue independently the marketing of its natural gas in the United States. That project received final approval in July, 1980, and deliveries commenced in August. The export project is particularly significant to the achievement of the Company's objectives during this difficult marketing period as it will comprise approximately 40 percent of the Company's natural gas sales over the next two years.

Long lead times are required in order to plan the orderly marketing of uncontracted reserves. No new gas purchase contracts are being offered at the present time and, therefore, we are pursuing opportunities for the independent sale of our natural gas until new contracts are available.

**Joint Ventures**

Historically, it has been the policy of your Company to maximize its exposure to new exploration plays through joint ventures with other parties on Company and jointly-acquired lands. During the year, the Company entered into joint-venture agreements with Esso Resources Canada Limited (Esso), the British Columbia Resources Investment Corporation (BCRIC) and Columbia Gas Development of Canada Ltd. (Columbia).

Under the Esso agreement, Esso will assume virtually all of Sulpetro's share of drilling and related costs in the Elmworth-Wapiti gas contract area to the end of 1982 to a total of $32 million. During 1980, Esso expended approximately $9.7 million and has a remaining commitment of $22.3 million. Upon completion of the expenditure, Esso will have earned a 25 percent net profit interest in Sulpetro's interest in the lands contained within the contract area.

The agreement with BCRIC provides for the conduct of seismic and the drilling of wells on a number of prospect areas developed by the Company in Alberta. BCRIC has reimbursed the Company for a portion of its land costs, will assume all costs relating to the seismic programs and will pay 100 percent of the Company's share of each well to earn 50 percent of the Company's interest in the lands designated for each prospect. Sulpetro will act as Operator of the joint venture. BCRIC will provide an estimated $9 - 10 million in funds during the initial commitment phase, with continuing options to drill further wells under the program.

Under the Columbia agreement, Sulpetro has committed $9 million to a three-year, $60 million joint-venture exploration program with Columbia and others on lands located off the east coast of Labrador, the low Arctic, the Yukon, the Northwest Territories, British Columbia and Alberta. The commitment will earn five percent of Columbia's interest in 7.5 million gross hectares (18.7 million gross acres) and in any new lands acquired during the program.

By virtue of a previous joint venture entered into in 1978 with Brenda Mines Ltd. (Brenda), continued expenditures were made on a number of prospect areas developed by the Company in Alberta. During 1980, Brenda spent approximately $5.5 million in drilling and seismic related to 32 commitment and/or option wells.

**Heavy Oil**

During the course of its gas exploration in the Irish area of eastern Alberta near the Lloydminster heavy oil producing region, your Company has encountered heavy oil over a large part of the area. The cost of mounting a full scale heavy oil exploration and pilot recovery program at Irish will be substantial. The Company therefore is pleased to have concluded an agreement with Dome Petroleum Limited (Dome) for a program of heavy oil exploration, development, and enhanced recovery projects on these lands.

## United States Activities

The acquisition of Petrosil was completed in the fourth quarter. Class B shares of Sulpetro were issued for all of the outstanding common shares of Petrosil. Petrosil is a rapidly growing oil and gas exploration and production company currently active in the states of Arkansas, California, Kansas, Louisiana, Oklahoma and Texas. Through a wholly-owned subsidiary, Gold Star Drilling Co., (Gold Star) Petrosil has recently entered into the contract drilling business. One rig is actively drilling Petrosil-operated and third-party operated wells in Oklahoma and Kansas and a second rig is on order and expected to be operational early in 1981.

## International Activities

Through its affiliate company, IEDC, the Company has a vehicle for the development of energy resources outside of North America, particularly in developing countries. IEDC has recently entered into exploration ventures in Australia and the Sudan and has created a subsidiary company for the development of natural gas and related projects in developing countries.

## Governmental Actions

The Federal Government introduced its Budget and National Energy Program (NEP) on October 28, 1980. The far-reaching implications of the new measures will affect every activity your Company may embark on in Canada in the foreseeable future.

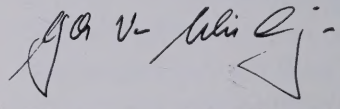
Our analysis of the extremely complex and inter-related matters such as oil and gas pricing, Petroleum & Natural Gas Revenue Tax, Incentive Grants for Exploration and Development, Canadian Ownership criteria, and a host of other associated issues, leads us to conclude that the Federal program, as it now stands, will not attain Canadian goals of oil and gas self-sufficiency and security of supply.

The end result will be an ever-increasing dependence on expensive and uncertain imports of foreign oil.

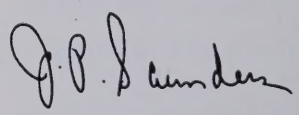
Your Company remains optimistic that the Federal Government will come to realize the negative impacts of its present policies and will make the adjustments necessary to encourage a workable energy program for Canada. Until such time, your Company will operate to the best possible advantage under the prevailing conditions.

As part of this strategy, we have commenced exploration and development activities in the United States and are participating in a number of international projects.

On behalf of the Board of Directors,



Chairman of the Board and Chief Executive Officer



President and Chief Operating Officer

January 26, 1981

# Operations Review

## Canada

### Land

During the year, Sulpetro acquired 40,160 gross hectares (100,400 gross acres) or 18,398 net hectares (45,995 net acres) of petroleum and natural gas rights mainly in central Alberta at a cost to the Company of $4.9 million. The most important acquisitions were made in the Mahaska, O'Chiese, Martin Hills, Florence, and Clyde areas. As of October 31, 1980, Sulpetro Limited held varying interests in petroleum and natural gas rights comprising 2,165,870 gross hectares (5,414,675 gross acres) and 464,049 net hectares (1,160,122 net acres).

These land holdings and those detailed in the table on this page exclude the interests which Sulpetro has the right to earn pursuant to the Columbia agreement. During the term of this agreement, Sulpetro and three other companies will make exploration expenditures of $45 million and Columbia will spend $15 million. Sulpetro's commitment of $9 million will earn 20 percent of Columbia's interest in approximately 7.5 million gross hectares (18.7 million gross acres) and in any new lands acquired in the program. Approximately one-half of the expenditures will be made off the east coast of Canada where Columbia has a 12.5 percent average working interest in BP Canada Limited's 12.0 million gross hectares (4.8 million gross acres). The remainder of Columbia's land interests to be earned are spread throughout Alberta, British Columbia, the Yukon, Northwest Territories and the low Arctic.

### Drilling

The Company participated in more wells and had a higher percentage of successful wells in 1980 than ever before in its history. A total of 137 working-interest wells were drilled of which 105 or 77 percent were successful. Of the successful wells, 101 were completed as gas wells and four were oil wells.

Average depth per well continued to increase as a larger proportion of the Company's wells were drilled in the Deep Basin and northwestern areas of Alberta.

In addition to its working-interest wells, Sulpetro participated in 63 overriding royalty wells of which 22 were completed as gas wells, 14 were potential oil wells and 27 were dry and abandoned. Of the 36 successful wells, Sulpetro retains the right in 29 wells to individually convert its overriding royalty interest to a working interest.

**Company Land Holdings**
(at year end October 31, 1980)

| | Working Interest Lands | | | | Royalty Interest Lands | |
|---|---|---|---|---|---|---|
| | Gross | | Net | | Gross | |
| | Hectares | Acres | Hectares | Acres | Hectares | Acres |
| Alberta | 1,330,040 | 3,325,100 | 375,697 | 939,242 | 49,652 | 124,130 |
| British Columbia | 5,690 | 14,225 | 1,017 | 2,542 | — | — |
| Nova Scotia | 556,327 | 1,390,818 | 27,393 | 68,483 | — | — |
| Northwest Territories | 159,043 | 397,607 | 43,818 | 109,545 | — | — |
| Hudson Bay | 114,258 | 285,645 | 15,996 | 39,990 | — | — |
| Saskatchewan | 512 | 1,280 | 128 | 320 | — | — |
| Total Land Holdings | 2,165,870 | 5,414,675 | 464,049 | 1,160,122 | 49,652 | 124,130 |



Rig crew in action, central Alberta.



East Coast Offshore Drillship.

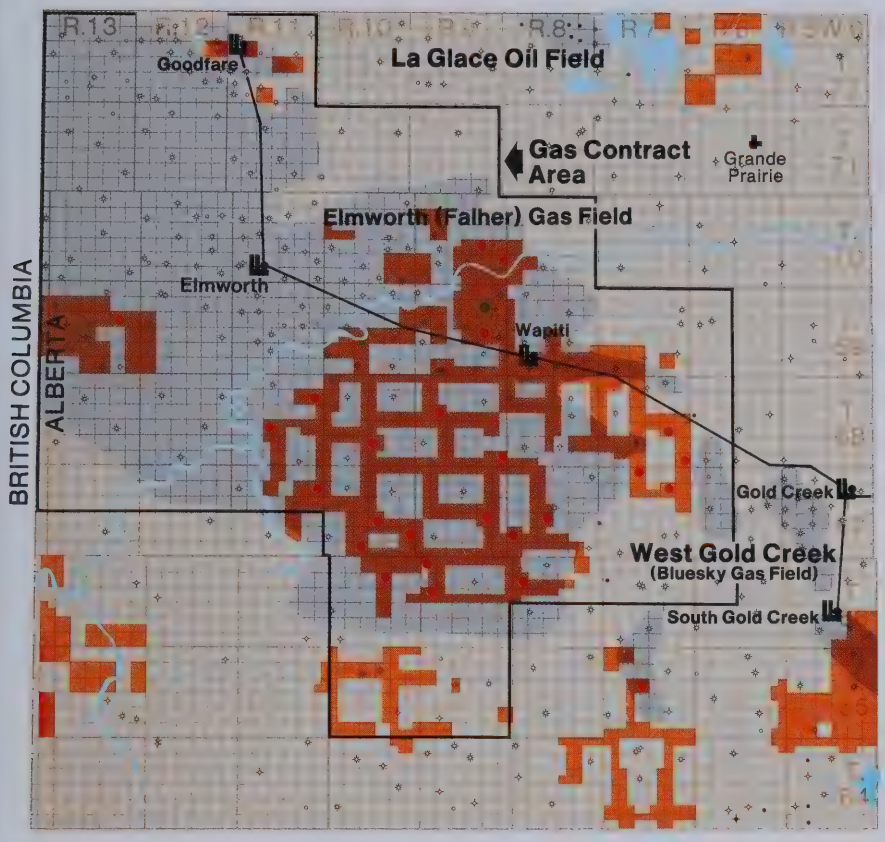
## Exploration

A substantial portion of Sulpetro's 1980 drilling activity was in the Elmworth-Wapiti, Valhalla, Clyde and Irish areas. The Company also increased its exposure in the Canadian east coast offshore play areas by participating with the Columbia Group in one exploratory well on the Labrador Shelf and two wells in the southeast Maritimes Basin off Prince Edward Island.

### Elmworth-Wapiti

Sulpetro's 28-well drilling program was designed to enhance reserves within the gas contract area. One-half of these wells are located on the southern portion of Sulpetro's Elmworth-Wapiti holdings and their success confirmed the multi-zone potential of this large region and added substantially to the Company's proven reserves.

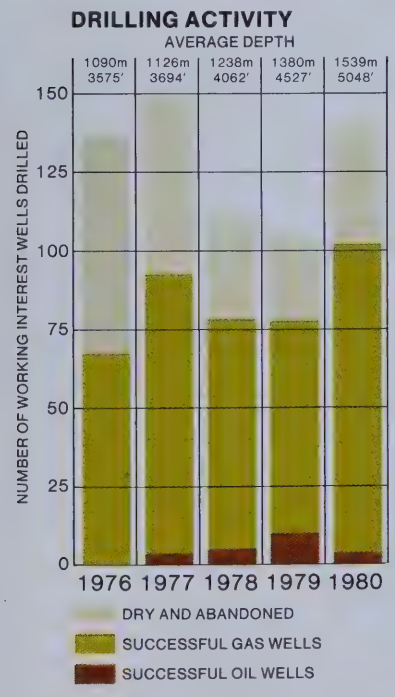
Completion success of wells drilled in 1980 and in previous years was excellent. Stimulation programs continue to convert probable gas reserves to proven reserves.




**Elmworth-Wapiti**

- Sulpetro Land Holdings
- Gas Plant
- Gas Pipeline
- 1980 Sulpetro Oil Well
- 1980 Sulpetro Gas Well
- Oil Well
- Gas Well
- Suspended Well
- Location
- Abandoned Well

Miles 0 2 4 6 8 10
Kilometres 0 4 8 12 16




Considerable unexplored potential remains and in 1981, Sulpetro plans to drill or participate in, 18 exploratory and/or delineation wells. This program is intended to demonstrate higher effective reserves at the next contract determination in 1982.

## Valhalla

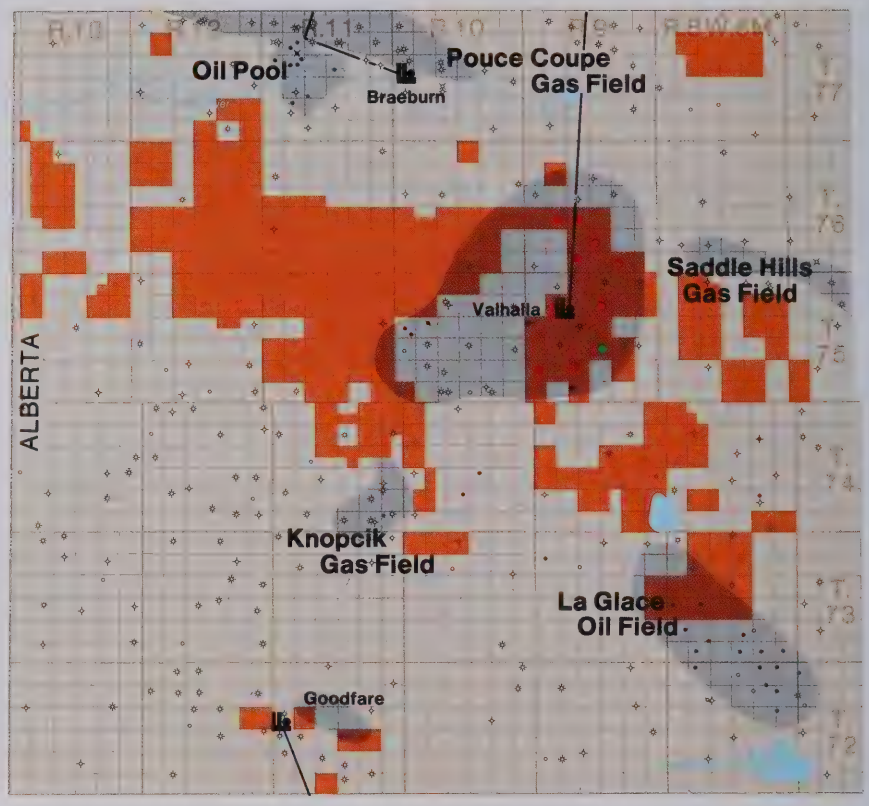
Drilling in this area concentrated on providing deliverability for the Sulpetro gas export project. Of 12 wells drilled, 10 were completed as gas wells and one is a producing oil well. The gas wells are producing into the Valhalla gas plant which went on stream in August, 1980.

Fewer wells were drilled in the Valhalla area than had been planned due to surface access problems during the summer. A deep Triassic test drilled in the western part of this project was unsuccessful. The main

## Valhalla

- Sulpetro Land Holdings
- Gas Plant
- Gas Pipeline
- 1980 Sulpetro Oil Well
- 1980 Sulpetro Gas Well
- Oil Well
- Gas Well
- Suspended Well
- Location
- Abandoned Well

Miles 0 2 4 6 8 10
Kilometres 0 2 4 6 8 10 12 14 16




focus of the Company's exploration effort on the western Valhalla lands was in shooting and interpretation of new seismic.

Planned activity for 1981 is a 24-well program designed both to extend the known Doe Creek and Halfway gas and oil accumulations and to actively explore the undeveloped western portion of this project.

### Clyde

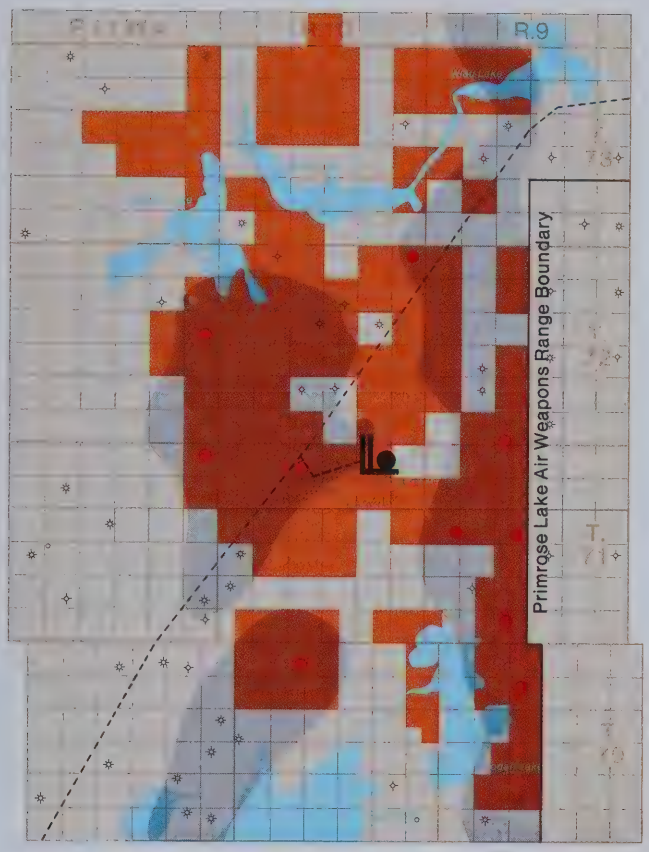
Sulpetro entered into a farmout agreement with a third party wherein Sulpetro is entitled to earn a percentage of the farmor's interest in 26,560 hectares (66,400 acres). One dry and abandoned well and ten successful Cretaceous gas wells were drilled in the winter of 1980 as part of the earning program. Following up on this success, the Company will drill sixteen wells in 1981 to complete the earning provisions of the agreement.

The Clyde area is under contract to Pan-Alberta Gas Ltd. and it is anticipated that production will commence in the spring of 1981.

### Irish

In June 1980, Sulpetro entered into a farmout agreement with Dome by which Dome committed to drill approximately 65 wells in an initial exploration phase, followed by a pilot thermal displacement program for the recovery of heavy crude oil. Dome will earn an interest in the heavy oil rights only.

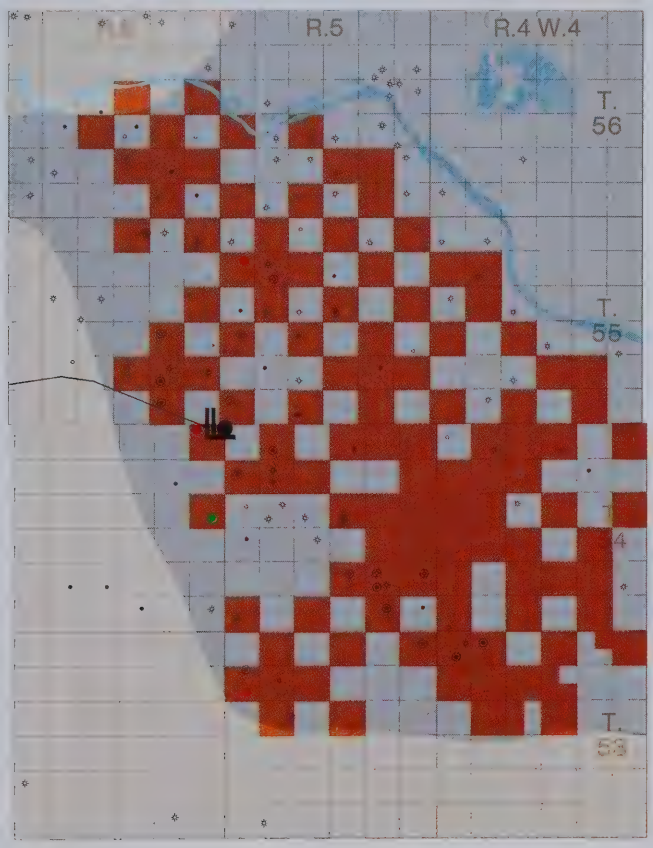
Sulpetro has retained its full working interest in the conventional oil and natural gas rights and has been actively exploring for and developing natural gas reserves in the Irish area for its gas export project. Of four wells drilled for this purpose, three were successfully completed as gas wells and are being tied into the gas plant. Additional drilling is planned to maintain deliverability.




## Clyde

- Sulpetro Land Holdings
- Gas Plant Site
- Gas Pipeline (under construction)
- 1980 Sulpetro Gas Well
- Gas Well
- Abandoned Well
- Location
- Gas Field

Miles 0 2 4 6 8 10
Kilometres 0 2 4 6 8 10 12 14 16



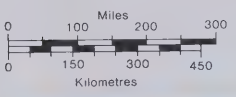

## Irish

- Sulpetro Land Holdings
- Gas Plant Site
- Gas Pipeline
- 1980 Sulpetro Oil Well
- 1980 Sulpetro Gas Well
- Sulpetro Dome Wells
- Oil Well
- Gas Well
- Location
- Abandoned Well
- Cold Lake Oil Sands Deposits

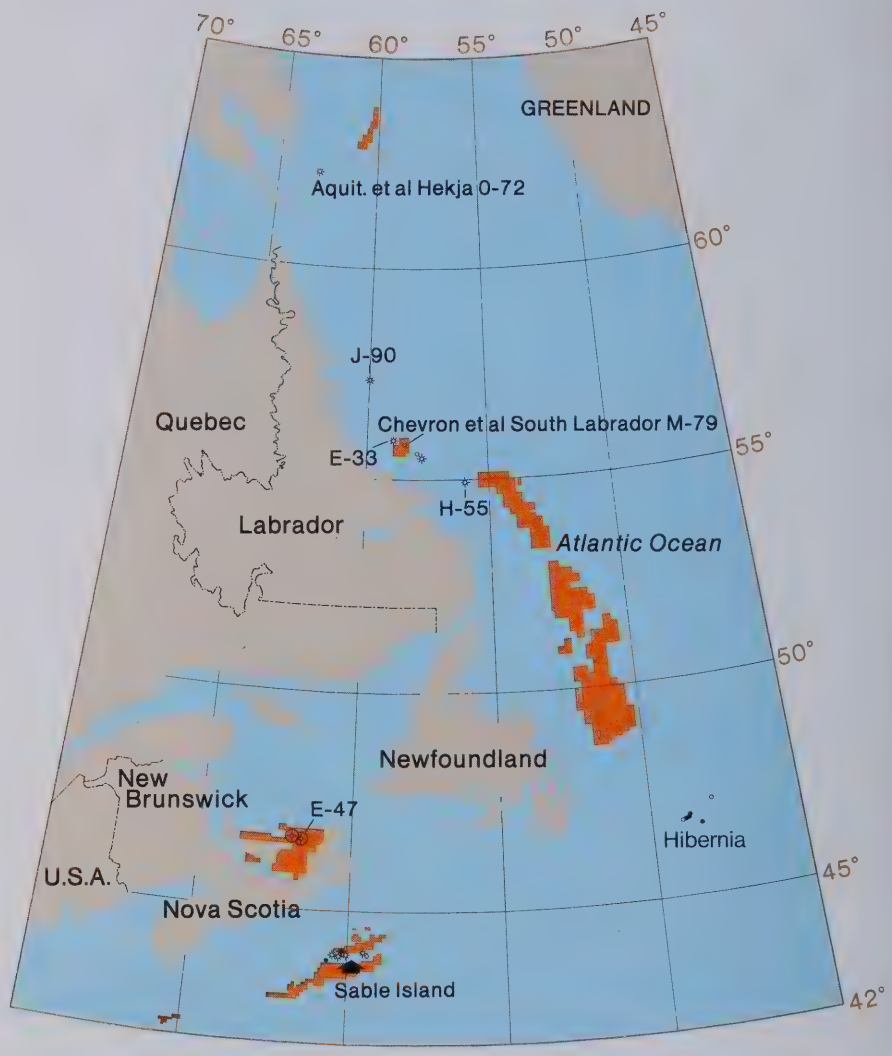
Miles 0 2 4 6 8 10
Kilometres 0 2 4 6 8 10 12 14 16

## East Coast Offshore

- Sulpetro Land Holdings
- 1980 Sulpetro Drilling
- Oil Well
- Gas Well
- Suspended Well
- Location
- Abandoned Well






### East Coast Offshore

During 1980, Sulpetro, as part of a consortium, increased its exposure offshore eastern Canada through the Columbia agreement. The lands are located on the Baffin/ Labrador/northeast Newfoundland Shelf and in the southeast Maritimes Basin to the east of Prince Edward Island. In this new venture, Sulpetro participated in two exploratory wells located in the southeast Maritimes Basin, both of which were abandoned.

On the Labrador Shelf, Sulpetro participated in the South Labrador M-79 wildcat. Drilling was completed in 1980, but seasonal limitations precluded any evaluation of the hydrocarbon shows and the well has been suspended until the 1981 drilling season. This well is located approximately fifteen miles southeast of the Chevron Hopedale E-33 wildcat, a 1978 discovery which tested gas at 521.2 thousand cubic metres per day (18.5 million cubic feet per day) from Lower Cretaceous sands and 402.9 thousand cubic metres per day (14.3 million cubic feet per day) from deeper Ordovician carbonates.

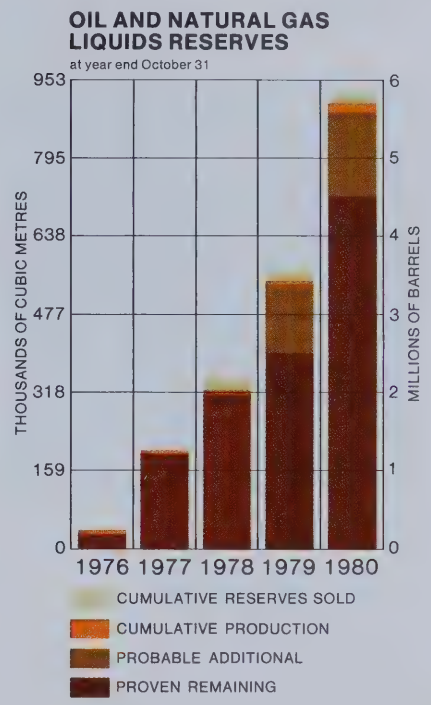
In 1981, Sulpetro will continue to participate in the evaluation of a number of offshore east coast areas. An extensive seismic program conducted this year by Shell Canada Resources Limited and Petro-Canada in the general Sable Island area should result in a minimum two-well drilling program in 1981. Seismic data will be acquired on the Baffin and southeast Maritimes Basin blocks. On the Labrador Shelf, the South Labrador M-79 well is to be tested and an additional wildcat will be drilled. Farther to the south, along the northeast Newfoundland Shelf, BP as operator, is planning additional seismic prior to drilling a well in 1982.

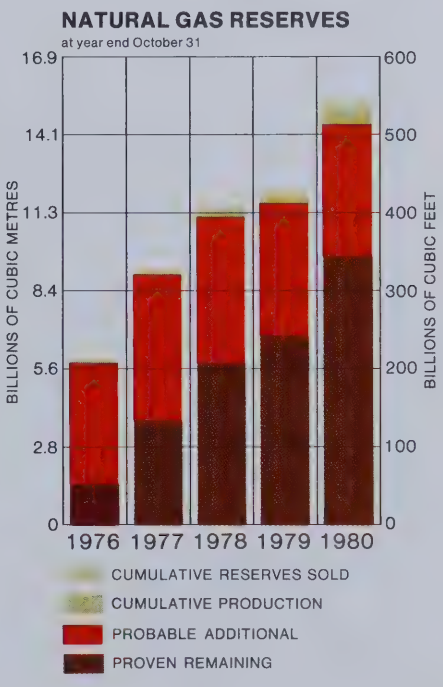
## Reserves

During 1980, the Company's Canadian exploration and development drilling added 2.89 billion cubic metres (102.5 billion cubic feet) of proven gas reserves after allowance for production and sale of 234 million cubic metres (8.3 billion cubic feet). At October 31, 1980, proven remaining gas reserves were 9.67 billion cubic metres (343.3 billion cubic feet), an increase of 43 percent over the previous year. The most significant increases in proven gas reserves were in the Elmworth-Wapiti, Karr and Clyde areas of Alberta, all of which are covered by gas purchase contracts.

Probable additional reserves declined slightly from 4.76 billion cubic metres (168.9 billion cubic feet) in 1979 to 4.70 billion cubic metres (166.8 billion cubic feet) in 1980 as a significant amount of probable reserves were converted to proven reserves by drilling during the year.

Proven remaining reserves of oil and natural gas liquids increased by 84 percent to 727 thousand cubic metres (4.6 million barrels) at October 31, 1980. Year-end probable oil and gas liquids reserves were 153 thousand cubic metres (965 thousand barrels), an increase of 52 thousand cubic metres (327 thousand barrels), or 51 percent. Most of the increase in oil and natural gas liquids reserves occurred in Alberta in the Chinchaga, Elmworth-Wapiti, and Karr areas.



## Production



Wapiti Gas Plant flow lines.

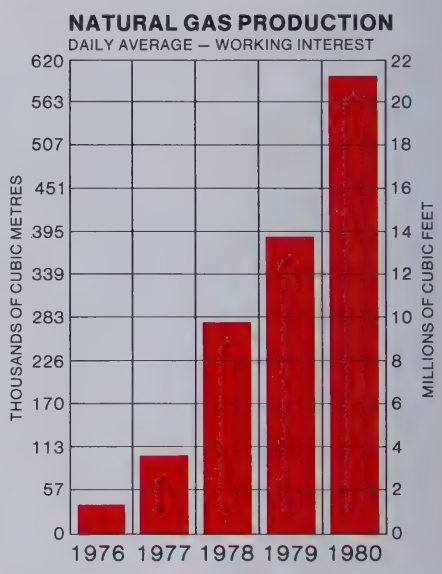
Natural gas production averaged 639.9 thousand cubic metres per day (22.7 million cubic feet per day) during 1980, an increase of 49 percent over the previous year. Working interest production was 603.2 thousand cubic metres (21.4 million cubic feet per day) or 94 percent of the total and the remainder is comprised of equivalent overriding royalty interest production.

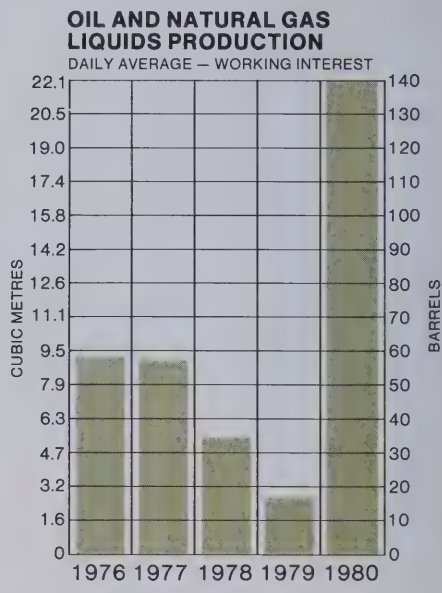
Two large new projects accounted for 44 percent or 267.7 thousand cubic metres per day (9.5 million cubic feet per day) of Sulpetro's 1980 working-interest gas production. The first project was in the Elmworth area, where the Sulpetro-operated Wapiti plant went on stream November 1, 1979. During the period ending October 31, 1980, the Company's share of plant production averaged 174.6 thousand cubic metres per day (6.2 million cubic feet per day.) Late in the year, the Company expanded the capacity of the plant from 1,409 thousand cubic metres per day (50 million cubic feet per day) to 2,113 thousand cubic metres per day (75 million cubic feet per day.)

The second project involved the sale of gas by Sulpetro to its two United States customers. Five new gas plants (two operated by Sulpetro) commenced production during the Company's fourth quarter to supply this Sulpetro export market. During the approximately three months of export sales, Sulpetro's share of production from the five plants averaged 388.8 thousand cubic metres per day (13.8 million cubic feet per day).

The two Company-operated plants supplying Sulpetro's gas export market are the 423 thousand cubic metres per day (15 million cubic feet per day) Irish compression plant and the 84 thousand cubic metres per day (3 million cubic feet per day) Amisk refrigeration plant. The Company's share of plant capacity in these two operated plants is 254 thousand cubic metres per day (9 million cubic feet per day).

The other three plants which commenced production in 1980 for the Company's gas export project are the Chinchaga and Valhalla gas processing plants and the compression and separation





Site of Niagara River crossing where Sulpetro's gas is delivered to the United States.

facility at South Gold Creek. Sulpetro's share of plant capacity in these three areas is 732 thousand cubic metres per day (26 million cubic feet per day).

In 1981, Sulpetro-operated compression and dehydration plants at Mitsue and Clyde will commence production as soon as Pan Alberta is ready to receive gas through the western leg of the "pre-build" portion of the Alaska Highway Gas Pipeline. The combined capacity of these plants will be 803 thousand cubic metres per day (28.5 million cubic feet per day). Sulpetro's share will be 225 thousand cubic metres per day (8 million cubic feet per day).

Eight additional Sulpetro working-interest areas operated by others will commence production in 1981.

By October 31, 1980 Sulpetro had participated in a total of 479 gas and oil wells in Canada as summarized below.

| | Gross | Net |
|---|---|---|
| Producing Gas Wells | 154 | 43.84 |
| Producing Oil Wells | 9 | 1.53 |
| Shut-in Gas or Oil Wells | 316 | 68.73 |
| | 479 | 114.10 |

In addition, Sulpetro has various overriding royalty interests in 70 producing gas wells, two producing oil wells and 118 shut-in gas or oil wells.

## Gas Marketing

The year 1980 was characterized by continuing strong growth in Western Canadian gas supply while markets deteriorated. As a result, the major purchaser of Western Canadian natural gas, concerned that its financial integrity was being threatened by the size of its minimum "take-or-pay" commitments, entered into agreements with a number of producers to reduce these obligations to 80 percent over the next two years.

Final approval in 1980 of the "pre-build" portion of the Alaska Highway Gas Pipeline was encouraging in that it will soon provide new markets for shut-in Alberta gas. Sulpetro is the operator of two gas plants currently under construction and is a participant in six other plants, all of which are expected to commence production in the spring of 1981, when the Western leg of the "pre-build" is completed. Fourteen other fields in which Sulpetro participates are expected to come on-stream in late 1982, when it is projected that the eastern leg of the "pre-build" will be completed.

In early 1980, the Canadian government set the international border price for natural gas at $4.17 U.S. per gigajoule ($4.47 U.S. per thousand cubic feet). The

## Alberta




Sulpetro Gas Export Supply Areas

Gas Pipeline

price has proven to be too high in much of the market area served by Canadian gas. This has not only caused a reduction in export sales during 1980, but has precipitated United States regulatory review of the advisability of that country relying on future Canadian supplies. Sulpetro has cautioned United States regulatory agencies against implementing regulations that seriously weaken the Western Canadian producers' ability to continue to develop gas reserves which would otherwise constitute an important source of natural gas for the United States.

The inability of most traditional gas purchasers to offer new contracts, and the less than satisfactory terms and conditions in those purchase contracts which have been offered, have combined to discourage new exploration ventures in Western Canada. Therefore, it was particularly gratifying to finally receive, in July 1980, the last of the United States regulatory approvals allowing commencement of gas deliveries under Sulpetro's export project. Deliveries to the United States customers commenced August 4, 1980, at Niagara Falls, Ontario. Although deliveries began at a reduced rate because of the warm weather in the United States, they averaged 1,592 thousand cubic metres per day (56.5 million cubic feet per day) in October.

Sulpetro expects to deliver an average of 1 493 thousand cubic metres per day (53 million cubic feet per day) over the two-year period extending to October 31, 1982. Approximately one-third of the deliveries will be owned by Sulpetro.

## Oil Sands Development

Sulpetro has drilled 45 wells on its Irish properties mainly in search of gas. Many of the wells confirmed extensive accumulations of heavy oil at depths of 396 metres to 610 metres (1,300 to 2,000 feet). Because of the large capital expenditures required to explore and develop the approximately 28,976 hectares (72,440 acres) of petroleum and natural gas rights in the Irish area, Sulpetro has entered into an agreement with Dome whereby that company will spend $10 million in exploration drilling on these lands in which Sulpetro has a 50 percent working interest. The exploratory phase of the program is expected to involve up to 65 wells.

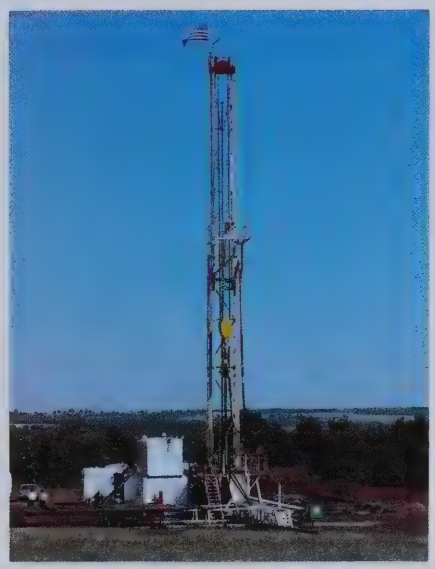
During the last two months of the Company's fiscal year, 18 exploration wells were drilled by Dome on Sulpetro's Irish properties. Twelve of these wells are potential oil wells.

Following completion of the exploration phase of the program, Dome is committed to spend another $12 million on pilot thermal recovery projects. It is expected that the pilot projects will be initiated in 1981.

When Dome has completed its expenditure commitment, it will have earned a 100 percent working interest in the heavy oil rights in the Irish properties. Sulpetro will retain a gross overriding royalty on these rights. After Dome has recovered its costs relating to the pilot recovery project, Sulpetro will have the right to convert its proportionate share of the gross overriding royalty to a maximum 25 percent working interest depending on the timing of the recovery of the pilot project costs. If Sulpetro elects to convert its gross overriding royalty interest to a working interest, then Dome will carry Sulpetro for up to $8.0 million (depending on the working interest factor) with respect to the capital costs of establishing heavy oil production. Dome is entitled to recover these costs from a percentage of Sulpetro's eventual heavy oil production from the area.

Late in 1980, an independent consultant estimated that there are 36.5 million cubic metres (230 million barrels) of potentially recoverable oil net to Sulpetro's interest underlying these lands.

## United States



Petrosil's Gold Star Rig No. 1 drilling on its first location in Logan County, Oklahoma.

The acquisition of Petrosil provides Sulpetro with a ready vehicle for expanding its activities into the United States. With its head office in Dallas, Texas, Petrosil currently conducts exploration and production operations in the states of Arkansas, California, Kansas, Louisiana, New Mexico, Oklahoma and Texas, and has producing interests in the states of Colorado, Pennsylvania and West Virginia.

During the period November 1, 1979, to October 31, 1980, Petrosil participated in the drilling of 35 gross wells, resulting in 14 oil wells, 4 gas wells and 17 dry holes.

**North American Interest Areas**




During the same period, Petrosil embarked upon a strategy of becoming a predominantly self-generating, self-operating company. To this end professional staff was increased and significant additions were made to its undeveloped acreage inventory. At October 31, 1980, Petrosil held 108,255 gross acres (81,866 net acres) of undeveloped properties.

In California, a Petrosil heavy oil discovery drilled during the year in Santa Barbara County is now undergoing steam injection in anticipation of enhanced secondary recovery. Satisfactory results could lead to a development drilling program in this area in 1981. Pursuant to a farmout agreement with a major integrated petroleum company, Petrosil will earn acreage upon the establishment of commercial production in this area of California as well as others in the state yet to be drilled.

In Louisiana, a gas discovery and the recompletion of an existing gas well — both in Claiborne Parish, contributed to a modest increase in 1980 production from this state. Leasing and seismic work are presently being pursued by Petrosil in both North and South Louisiana on self-generated exploration plays.

In Texas, two small 1980 gas discoveries are shut-in pending further development drilling to enhance marketability. One marginal gas producing property was profitably disposed of during the year. New drilling is currently under way in a Haskell County multi-horizon play and leasing recently commenced on a South Texas Austin Chalk play.

In central Oklahoma, six wells included in Petrosil's 1980 Okemah area drilling program have established new crude oil production. The program has been pursued by Petrosil following an aggressive mineral rights leasing program undertaken by the Company in 1979, and 1980. The Company's lease position in the area now aggregates 23,523 gross acres (15,871 net acres). The drilling undertaken so far has evaluated only a small portion of this acreage. A re-evaluation of this acreage by Petrosil's Exploration Department is currently under way to re-define promising prospects in the light of 1980 drilling results. Altogether, Petrosil has participated in 13 oil discoveries and one gas

discovery during the year in Oklahoma. In 1981, a substantial multi-prospect exploration and development program is planned for Oklahoma.

In September, Petrosil activated its wholly-owned subsidiary Gold Star, headquartered in Cushing, Oklahoma. In addition to the attractive profit potential for competent contract drillers in the United States today, Petrosil was also motivated by the desire to have a rig available on a timely basis for its own Oklahoma and Kansas exploration and development drilling programs. Gold Star commenced operations with a new rig capable of drilling wells to total depths of 6,500 feet, ideal for Petrosil's own drilling requirements as well as those of numerous other operators active in these areas. The Gold Star rig will be used on a combination of Petrosil and non-Petrosil wells, and a second rig is on order for delivery in early 1981.

During the month of October when the results of Petrosil were consolidated with those of Sulpetro, Petrosil's gas production averaged 3.8 million cubic feet per day and oil and condensate production averaged 164 barrels per day. As of October 31, 1980, Petrosil's proven remaining reserves were 6.9 billion cubic feet of gas and 195.5 thousand barrels of oil.

## International

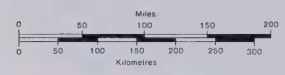
The Company's affiliate, International Energy Development Corporation (IEDC), was formed in late 1979 as a vehicle for the development of energy resources outside of North America, with special emphasis on developing countries. Its shareholders include A.B. Volvo, the Swedish car manufacturer; AZL Resources, Inc., a U.S. resource and agribusiness firm; Kuwait Petroleum Corporation, the principal national oil company of Kuwait; and Sulpetro Limited.

During 1980, the Australian subsidiary of IEDC entered into an agreement with six other participants to earn varying interests in oil and gas exploration permits covering 48,583 square kilometres (approximately 12 million acres) in Australia. The permits are located on-shore in the Canning-Fitzroy basin area of the State of Western Australia and the subsidiary has the right to earn working interests ranging from 43 to 58 percent in the various permits. The initial obligation well under the program has been abandoned, and further exploratory operations will be conducted in 1981.

At year-end, IEDC concluded a further major exploration agreement with the Government of Sudan. IEDC will participate in the exploration of an area comprising some 145,000 square kilometres (approximately 35.8 million acres) in the Muglad Basin. IEDC's interest will be 25 percent with Total Exploration holding a 65 percent interest and Sudan's national petroleum company a 10 percent interest. The Muglad Block adjoins to the southeast the area currently held by Chevron in which an extensive exploration and development program is being carried out which has yielded several promising oil discoveries to date. The exploration program will commence with an extensive aeromagnetic and gravity survey to be followed by detailed seismic and drilling depending on the results of this initial survey.

IEDC is currently involved in negotiations with a number of other developing countries with a view to accelerating exploration and development of their energy resources.

## Australia Land Holdings









## Sudan

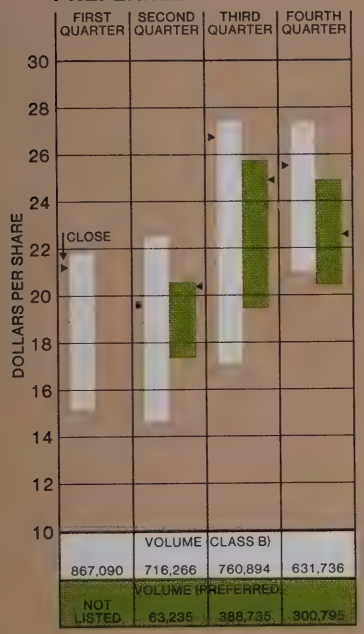
- Oil Well
- Location
- Abandoned Well








**1980 TRADING**
**CLASS B COMMON –**
**PREFERRED –**



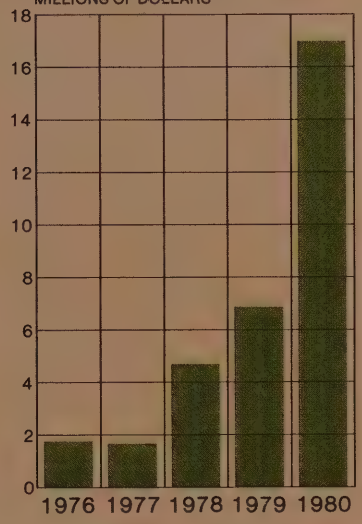

# Financial Review

1980 was a year of substantial improvement in the Company's financial position as revenue more than doubled, the 1979 small net loss was turned into a $2.6 million net profit and the working capital of the Company was maintained at a positive level although the Company employed a large amount of funds to increase its level of exploration and development activity. Appreciable reserves have been added as a result of this activity, placing the Company in a favorable position to continue its pattern of revenue growth and appreciation of assets.

During the first quarter, the Company made an offering to the public of 1,250,000 seven percent cumulative redeemable first preferred shares at a price of $20.00 per share. The shares are convertible, at the option of the holder, into Class B Common shares at any time on or prior to May 31, 1988 at a conversion price of $22.50 per share. The issue was fully subscribed and raised $25 million before commissions and expenses.

In the fourth quarter of the year, the Company acquired Petrosil which is now a wholly-owned subsidiary of Sulpetro Limited. The purchase of Petrosil was completed by the issuance of 826,949 Sulpetro Class B common shares. For consolidation purposes, approximately one month's earnings of Petrosil are incorporated in the Statement of Earnings and had no material effect on the earnings of Sulpetro.

**REVENUE FROM**
**OIL AND GAS SALES**
MILLIONS OF DOLLARS




## Revenue

Sulpetro's revenue from natural gas, crude oil and natural gas liquids sales rose to $17.0 million from $6.7 million last year, representing a year-to-year increase of 154 percent. The main reason for the substantial increase is due almost

equally to higher gas production and increased prices. The higher gas volumes can be attributed to the commencement of production from the Company's Wapiti gas plant and the beginning of deliveries of gas under the Company's gas export contract. Interest and other income was up from $0.6 million in 1979 to $2.6 million in 1980, mainly due to funds from the convertible preferred share issue being available for investment for a portion of the year. Overall revenue for the year 1980 was up 169 percent from a year earlier.

## Expenses

Expenses for 1980 rose 91 percent from the previous year. Operating costs rose 68 percent or by $0.8 million, primarily because of increased sales volumes of crude oil and natural gas. General and administrative costs were higher by 50 percent, from $2.0 million in 1979 to $3.0 million in 1980, due to increased staff and overhead costs caused by the continued growth of the Company. Depletion rose 85 percent year-to-year and depreciation charges were up 111 percent because of increased levels of production and higher capital investment in plant and related facilities, respectively.

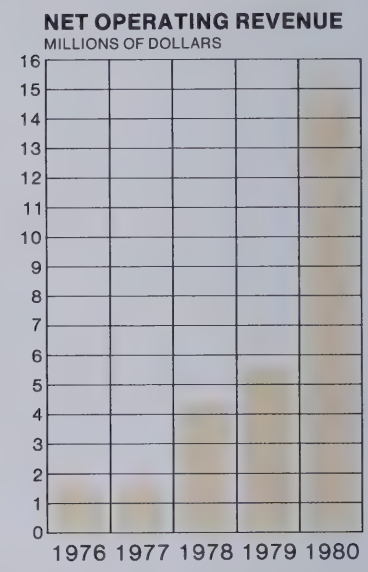
Interest expenses were sharply higher in 1980 over 1979, increasing to $6.0 million from $2.6 million, as a result of higher interest rates and a smaller percentage of costs being capitalized as the Company achieved higher production levels.

## Earnings

The Company exhibited a significantly improved picture over 1979 with a profit of $2.6 million in 1980, as compared to a loss of $9,000 in 1979. This represents an earnings per common share figure of $0.12 after accruing the dividend on the convertible preferred shares to October 31, 1980. As a result of improved earnings, a provision was made for taxes of $1.9 million as opposed to a recovery of $0.7 million in 1979.

## Changes in Financial Position

The overall working capital position of the Company declined by $1.2 million after taking into account Petrosil's working capital deficiency of $3.2 million at the date of acquisition. Improvements were caused by increased cash flow from operations, the sale of convertible preferred shares and the receipt of the last payment on a 1978 sale of natural gas reserves. These funds were used to finance an active



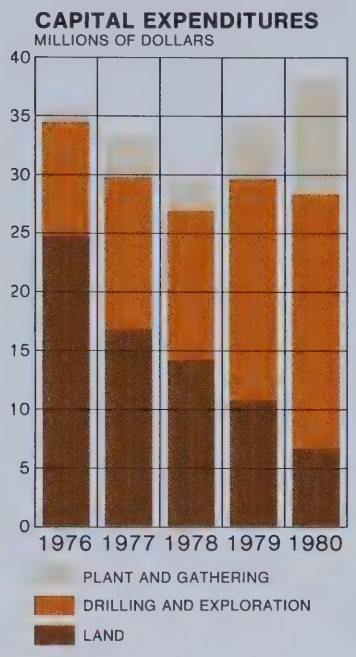

exploration and development program, to initiate an investment position in IEDC, to reduce long-term debt and to pay dividends on the convertible preferred shares issued in 1980.

Funds generated from operations totalled $9.6 million, an increase of approximately $7.6 million over 1979, or a 385 percent improvement. Capital expenditures were up 12.1 percent to $37.8 million from $33.7 million in 1979, an equity investment of $2.9 million was made in IEDC and the first repayment of $1.5 million was made in the fourth quarter on the 10-5/8 percent Secured Debenture.

In order to meet these needs, Sulpetro supplemented the funds generated from operations by issuing to the public convertible preferred shares. As well, a final payment in the amount of $3.8 million was received with respect to a 1978 sale by Sulpetro of 592 million cubic metres (21 billion cubic feet) of proven and probable reserves to other companies. As reported in last year's report, the proceeds from this sale were credited to net property, plant and equipment.

The convertible preferred shares issued in the first quarter of 1980 accounted for an increase in share capital of $25.0 million during the year and after deducting commissions and expenses, accounted for $23.8 million of the increase. Dividends paid on the convertible preferred shares amounted to $1.0 million during 1980.

The acquisition of Petrosil accounted for $16.9 million of the increase in share capital.




## Outlook for 1981

Sulpetro has improved its financial position in 1980, placing the Company in a good position for continued growth and profitability. An adequate working capital position, a sound debt to equity ratio and a large number of unencumbered assets all provide the Company with the financial ability to undertake an expanded expenditures program or to take advantage of other worthwhile opportunities.

Revenue and profit increases are anticipated in 1981 due largely to a full year's operation of Sulpetro's gas export project and to an expected increase in production from the Elmworth-Wapiti area. However, the Federal Budget of October 28, 1980 introduced a new eight percent production tax on crude oil and natural gas which will have the effect of reducing Sulpetro's cash flow from earlier forecasted figures. In addition to an excise tax on domestic gas sales, the Federal Government levied an excise tax on export gas sales which may further reduce cash flow.

SULPETRO LIMITED

# Consolidated Balance Sheet

OCTOBER 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

## Assets

| | 1980 | 1979 |
|---|---|---|
| Current Assets: | | |
| Cash and term deposits | **$ 1,422** | $ 6,707 |
| Accounts receivable | **24,640** | 5,691 |
| Agreement receivable | **—** | 5,000 |
| Notes receivable (Note 3) | **1,441** | 958 |
| Total current assets | **27,503** | 18,356 |
| Notes Receivable (Note 3) | **2,218** | 5,768 |
| Property, Plant and Equipment (Note 4) | **164,315** | 106,444 |
| Other Assets — at cost | **3,445** | 453 |
| | **$197,481** | $131,021 |

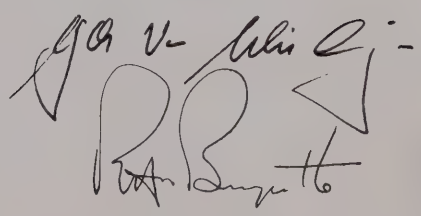
## Liabilities

| | 1980 | 1979 |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | **$ 18,021** | $ 7,929 |
| Long-term debt — due within one year (Note 5) | **6,746** | 6,502 |
| Total current liabilities | **24,767** | 14,431 |
| Long-Term Debt (Note 5) | **56,856** | 48,720 |
| Deferred Income Taxes | **36,358** | 35,014 |
| Prepayment for Future Gas Production | **4,922** | 1,165 |

## Shareholders' Equity

| | | |
|---|---|---|
| Share Capital (Note 6) | **61,570** | 19,685 |
| Contributed Surplus | **3,629** | 4,256 |
| Retained Earnings | **9,379** | 7,750 |
| | **74,578** | 31,691 |
| | **$197,481** | $131,021 |

On behalf of the Board:



, Director

, Director

*See accompanying notes.*

# Consolidated Statement of Earnings

Year Ended October 31, 1980
(with comparative figures for 1979)
(thousands of dollars except per share amounts)

| | 1980 | 1979 |
|---|---|---|
| Revenue: | | |
| Oil and gas sales | **$17,037** | $6,695 |
| Interest and other income | **2,581** | 593 |
| | **19,618** | 7,288 |
| Expenses: | | |
| Operating | **1,945** | 1,160 |
| General and administrative | **2,994** | 1,984 |
| Interest on long-term debt | **6,022** | 2,566 |
| Depletion | **4,028** | 2,182 |
| Depreciation | **1,085** | 514 |
| | **16,074** | 8,406 |
| Earnings (loss) before income taxes | **3,544** | (1,118) |
| Income Taxes: | | |
| Deferred (recovered) | **1,900** | (700) |
| Small explorer's credit and other | **(970)** | (409) |
| | **930** | (1,109) |
| Net earnings (loss) | **$ 2,614** | $ (9) |
| Net earnings per share | **$ 0.12** | $ 0.00 |

# Consolidated Statement of Retained Earnings

Year Ended October 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

| | 1980 | 1979 |
|---|---|---|
| Retained earnings at beginning of year | **$ 7,750** | $7,815 |
| Net earnings (loss) for the year | **2,614** | (9) |
| | **10,364** | 7,806 |
| Deduct: | | |
| Dividends on convertible preferred shares | **985** | 56 |
| Retained earnings at end of year | **$ 9,379** | $7,750 |

*See accompanying notes.*

SULPETRO LIMITED

# Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

| | 1980 | 1979 |
|---|---|---|
| Working capital was provided from: | | |
| Operations | **$ 9,649** | $ 1,987 |
| Sale of property, plant and equipment | **3,863** | 9,562 |
| Reduction of notes receivable | **1,480** | 1,771 |
| Reduction of current portion of deferred taxes | **—** | 7,900 |
| Net proceeds from issuance of share capital | **40,918** | 16,495 |
| Long-term debt | **2,998** | 17,734 |
| Prepayment for future gas production | **3,757** | 638 |
| | **62,665** | 56,087 |
| Working capital was used for: | | |
| Acquisition of Petrosil Resources Inc. Net assets, at attributed values, plus working capital deficiency acquired of $3,204 (Note 2) | **20,156** | — |
| Acquisition of property, plant and equipment | **37,829** | 33,745 |
| Increase in notes receivable | **50** | 1,089 |
| Reduction of long-term debt | **1,888** | 8,931 |
| Dividend on convertible preferred shares | **985** | 56 |
| Other | **2,946** | — |
| | **63,854** | 43,821 |
| Increase (decrease) in working capital | **(1,189)** | 12,266 |
| Working capital (deficiency) at beginning of year | **3,925** | (8,341) |
| Working capital at end of year | **$ 2,736** | $ 3,925 |

*See accompanying notes.*

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Sulpetro Limited as at October 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at October 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
December 18, 1980

Peat, Marwick, Mitchell & Co.
Chartered Accountants

# Notes to Consolidated Financial Statements

October 31, 1980

(tabular figures in thousands of dollars)

1. **Significant Accounting Policies**

Principles of Consolidation
The consolidated financial statements include, in addition to the accounts of the Company, the accounts of its subsidiaries, all of which are wholly owned.

Exploration and Development Costs
The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized, including interest and applicable foreign exchange gains or losses related to funds borrowed to acquire non-producing properties. Separate cost centres have been established for North America and each foreign area in which the Company has an interest. All such costs are being depleted on a composite unit-of-production method based on estimated proven reserves, as determined by Company engineers.

Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the statement of earnings.

Joint Venture Accounting
Substantially all of the Company's exploration and production activities related to oil and gas, are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Leases
Capital lease obligations which relate to transactions which are similar in nature to a purchase have been capitalized and included in long-term debt.

Depreciation
Plant and equipment are depreciated on the diminishing balance method at rates estimated to amortize the costs over the useful lives of the assets as follows:

| | |
|---|---|
| Lease and well equipment | 10% |
| Plant and related facilities | 4% |
| Other | 20%-30% |

Translation of Foreign Currencies
The Company follows the current — noncurrent method of accounting for translation of accounts originating in foreign currencies, whereby current assets and current liabilities are translated at the rate in effect at the balance sheet date and noncurrent assets and long term liabilities are translated at applicable historical rates. The items in the statement of earnings are translated at the average rates of exchange prevailing during the year except for depreciation and depletion, which are translated at the same rates as used for the related assets.

Earnings per Share
Basic earnings per share have been calculated using the weighted average number of common shares outstanding during the year. The calculation of earnings per common share on a fully diluted basis assumes the conversion of all securities and exercise of all stock options which would have a dilutive effect on earnings per share, however earnings per share on a fully diluted basis in 1980 and 1979 are anti-dilutive.

2. **Acquisition of Subsidiary Company**

Effective September 27, 1980 the Company acquired all of the issued and outstanding shares of Petrosil Resources Inc. ("Petrosil") (an oil and gas exploration and production company incorporated under the laws of the State of Delaware) for a total purchase price of $16,952,454. The consideration consisted of 826,949 Class B Common Shares of the Company at a value of $20.50 per share. The Company's consolidated earnings include the results of operations of Petrosil from September 27, 1980. Details of the acquisition, which has been accounted for by the purchase method are as follows:

| | |
|---|---|
| Book value of acquired assets | $20,024 |
| Book value of assumed liabilities | 16,036 |
| | 3,988 |
| Excess of attributed value over book value of acquired net assets assigned to petroleum and natural gas properties | 12,964 |
| Cost of acquisition | $16,952 |
| The net assets acquired, at attributed values, consist of: | |
| Property, plant and equipment | $29,018 |
| Investment in Class B Common Shares of Sulpetro Limited | 216 |
| Other assets | 68 |
| Long-term debt | (7,026) |
| Due to Sulpetro Limited 9½% subordinated note in the amount of $2,100,000 U.S. | (2,120) |
| | 20,156 |
| Working capital | |
| Current assets | 3,686 |
| Current liabilities | (6,890) |
| | (3,204) |
| | $16,952 |

3. **Notes Receivable — secured**

| | 1980 | | 1979 | |
|---|---|---|---|---|
| | Long-Term | Current | Long-Term | Current |
| From directors, officers and employees — non-interest bearing notes as payment for shares and other benefits given under the Company's directors' and employees' benefit plans | **$2,218** | **$1,441** | $3,648 | $958 |
| Subordinated note receivable in the amount of $2,100,000 U.S. bearing interest at 9½% per annum | — | — | 2,120 | — |
| | **$2,218** | **$1,441** | $5,768 | $958 |

The subordinated note receivable in the amount of $2,100,000 U.S. is due from Petrosil which became a wholly-owned subsidiary of the Company during the year.

## 4. Property, Plant and Equipment

| | October 31, 1980 | | |
|---|---|---|---|
| | At Cost | Accumulated Depletion or Depreciation | Net |
| Petroleum and natural gas properties including development thereon | **$145,431** | **$ 8,380** | **$137,051** |
| Lease and well equipment | **6,647** | **607** | **6,040** |
| Plant and related facilities | **18,586** | **1,301** | **17,285** |
| Other including assets under capital leases at a cost of $2,998,000 | **4,307** | **368** | **3,939** |
| | **$174,971** | **$10,656** | **$164,315** |

| | October 31, 1979 | | |
|---|---|---|---|
| | At Cost | Accumulated Depletion or Depreciation | Net |
| Petroleum and natural gas properties including development thereon | $ 99,845 | $4,354 | $95,491 |
| Lease and well equipment | 1,827 | 348 | 1,479 |
| Plant and related facilities | 9,895 | 616 | 9,279 |
| Other | 428 | 233 | 195 |
| | $111,995 | $5,551 | $106,444 |

## 5. Long-Term Debt

| | 1980 | | 1979 | |
|---|---|---|---|---|
| | Long-Term | Current | Long-Term | Current |
| U.S. dollar production bank loan of $26,550,000 U.S. bearing interest at ¾ of 1% per annum above the bank's U.S. base rate | **$30,220** | **$ —** | $30,220 | $5,002 |
| U.S. dollar bank loan bearing interest at rates varying between 11.625% and 117% of the bank's prime rate plus ½%-due July 1982 | **4,830** | **1,303** | — | — |
| U.S. dollar bank loan bearing interest at the bank's prime rate plus 1½% | **—** | **3,555** | — | — |
| U.S. dollar 9% convertible subordinated debentures $1,875,000 U.S. maturing March 1, 1989 | **2,196** | **—** | — | — |
| 10-5/8% secured debentures maturing September 30, 1992 | **17,000** | **1,500** | 18,500 | 1,500 |
| Obligation under capital leases | **2,610** | **388** | — | — |
| | **$56,856** | **$6,746** | $48,720 | $6,502 |

The bank loans are secured by assignments of certain petroleum and natural gas properties and, in certain circumstances, the production proceeds therefrom. The agreed terms of repayment of the production bank loan provide for annual payments commencing in November 1981 and ending in 1990.

The 10-5/8% secured debentures are secured by certain petroleum and natural gas properties and provide for annual sinking fund payments.

The 9% convertible subordinated debentures are convertible at the option of the holder into Class "B" Common Shares at a rate of 269.22 shares for each U.S. $5,000 principal amount of debentures at any time before March 1, 1984. These debentures are unsecured and are subordinated to all other indebtedness of the Company.

5. **Long-Term Debt** — cont'd

The minimum repayment of long-term debt, including the present value of minimum lease payments in each of the next five years (based on exchange rates in existence at October 31, 1980) are: 1981 — $6.7 million, 1982 — $10.0 million and 1983-85 — $5.2 million per year.

The minimum future payments at October 31, 1980 under capital leases are as follows:

| | |
|---|---|
| 1981 | $ 601 |
| 1982 | 601 |
| 1983 | 601 |
| 1984 | 600 |
| 1985 | 600 |
| Later years | 1,776 |
| | 4,779 |
| Less imputed interest | 1,781 |
| | $2,998 |

Of the total annual payments $58,316 relates to a lease expiring on February 28, 1986; $273,803 to a lease expiring on March 31, 1987; and $268,500 to a lease expiring on April 30, 1991.

In accordance with the Company's full cost accounting policy (Note 1), interest expense of $1,309,693 (1979 — $4,035,000) has been capitalized in 1980.

6. **Share Capital**

The share capital at October 31, 1980 and 1979 is as follows:

| | 1980 | 1979 |
|---|---|---|
| 7% Cumulative Redeemable Convertible First Preferred Shares, Series A; par value $20. Authorized 5,000,000 shares; issued 1,244,850 shares (1979 — nil) | **$24,897** | $ — |
| Class A Common Shares without nominal or par value. Authorized 3,000,000 shares; issued 2,771,684 shares (1979 — 2,850,560 shares) | **2,766** | 2,835 |
| Class B Common Shares without nominal or par value. Authorized 20,000,000 shares; issued 9,054,722 shares (1979 — 8,128,322 shares) | **34,123** | 16,850 |
| | **61,786** | 19,685 |
| Less cost of Class B Shares held by a subsidiary | **216** | — |
| | **$61,570** | $19,685 |

Under date of January 19, 1980, the Company's authorized share capital was increased and altered by:

(a) The creation of 5,000,000 additional Class B Common Shares without nominal or par value; and

(b) the creation of 5,000,000 new First Preferred Shares having a par value of $20 per share.

The 7% Cumulative Redeemable Convertible First Preferred Shares, Series A (the "preferred shares") are entitled to preference over the Class A and Class B Common Shares with respect to the payment of dividends and the distribution of assets and return of capital in the event of liquidation, dissolution or winding up, and are convertible, at the option of the holder, into Class B Common Shares at any time up to May 31, 1988, at a conversion price of $22.50 per share. The preferred shares are redeemable, subject to certain restrictions at the option of the Company, in whole or in part, at any time and from time-to-time, on the payment of the par value of each share plus a premium varying from 6% to 1.2% from 1980 to 1989 and at par thereafter.

The Class A Common Shares, which are convertible into Class B Common Shares on the basis of one Class B Common Share for each Class A Common Share, have unlimited voting rights while the voting rights of the Class B Common Shares are restricted except in certain circumstances, none of which now exist. The Class A Common Shares rank equally without preference or distinction with respect to the payment of dividends and return of capital with the Class B Common Shares.

During the year 78,876 Class A Common Shares were converted into Class B Common Shares; 5,150 preferred shares were converted into 4,576 Class B Common Shares: 826,949 Class B Common Shares were issued in connection with the acquisition of Petrosil (Note 2); and 16,000 Class B Common Shares were issued pursuant to share option agreements for an aggregate cash consideration of $148,800. In addition 1,250,000 preferred shares of a par value of $20 each were issued for an aggregate consideration of $25,000,000. Commission and issue expenses in connection with this issue of preferred shares amounted to $1,182,000, which amount, net of applicable income tax benefits of $556,000 has been charged to contributed surplus.

Share options

The following table summarizes transactions during the year ended October 31, 1980 under the share option agreements.

| | Class A Common Shares | Class B Common Shares |
|---|---|---|
| Balance at beginning of year | 45,000 | 472,500 |
| Granted to directors and employees | — | 243,585 |
| | 45,000 | 716,085 |
| Cancelled or expired | — | 2,000 |
| Exercised | — | 16,000 |
| Balance at end of year | 45,000 | 698,085 |

Of the 243,585 share options granted during the year 64,085 were granted to directors and employees of Petrosil in replacement for options to acquire common shares of Petrosil outstanding as at the date of acquisition, by the Company, of all of the outstanding common shares of Petrosil (Note 2).

Options are exercisable, as to Class A Common Shares, at $4.33 per share to April 19, 1981 and as to Class B Common Shares, at prices ranging from $5.93 to $19.91 on varying dates to October 31, 1985.

7. **Statutory information:**

The aggregate remuneration paid to directors and senior officers during the year was $1,130,000 (1979 — $918,000).

8. **Related party transactions:**

In 1977, Orient Oil & Gas Inc., a wholly-owned subsidiary of Petrosil entered into a partnership agreement with Orient Oil & Gas Associates (Orient Associates). Subsequent to this agreement, Orient Associates entered into a participation agreement, with two related companies, for the exploration of a foreign cost centre.

Certain related parties have entered into subparticipation agreements with the Company whereby they participate in the drilling of certain wells in which the Company has an interest. Costs incurred or revenues received by the Company applicable to the subparticipation interests are recovered from or remitted to the subparticipants.

# Five-Year Financial Summary

(thousands of dollars)

| | Years Ended October 31 | | | | |
|---|---|---|---|---|---|
| | 1980 | 1979 | 1978 | 1977 | 1976 |
| **Income** | | | | | |
| Oil and gas sales | **$ 17,037** | 6,695 | 4,641 | 1,582 | 1,660 |
| Interest and other income | **2,581** | 593 | 592 | 668 | 934 |
| | **$ 19,618** | 7,288 | 5,233 | 2,250 | 2,594 |
| **Expenses** | | | | | |
| Operating | **1,945** | 1,160 | 439 | 140 | 188 |
| General and administrative | **2,997** | 1,896 | 1,484 | 1,787 | 1,249 |
| Loss (gain) on foreign exchange | **(3** | 88 | 1,562 | 697 | (25) |
| Interest on long-term debt | **6,022** | 2,566 | 2,622 | 1,111 | 1,079 |
| Depreciation and depletion | **5,113** | 2,696 | 2,029 | 923 | 390 |
| Income taxes | **930** | (1,109) | (1,054) | (741) | 36,417 |
| | **$ 17,004** | 7,297 | 7,082 | 3,917 | 39,298 |
| **Cash Flow and Earnings** | | | | | |
| Funds provided from operations | **9,649** | 1,987 | (570) | (1,519) | 72 |
| Sale of property, plant and equipment | **3,863** | 9,562 | 6,185 | — | 101,934 |
| Net earnings before income taxes | **3,544** | (1,118) | (2,903) | (2,408) | 81,726 |
| Net earnings | **2,614** | (9) | (1,849) | (1,667) | 45,309 |
| **Assets, Liabilities and Shareholders' Equity** | | | | | |
| Working capital | **2,736** | 3,925 | (8,341) | (3,391) | (6,169) |
| Net property, plant and equipment (including investment in partnership at equity) | **164,315** | 106,444 | 84,938 | 64,165 | 31,971 |
| Notes and agreements receivable | **2,218** | 5,768 | 6,450 | 24,540 | 45,431 |
| Other | **3,445** | 453 | 472 | 504 | 156 |
| Total net assets | **172,714** | 116,590 | 83,519 | 85,818 | 71,389 |
| Long-term debt | **56,856** | 48,720 | 39,917 | 41,022 | 25,752 |
| Deferred income taxes | **36,358** | 35,014 | 27,814 | 28,898 | 29,434 |
| Gas production prepayment | **4,922** | 1,165 | 527 | — | — |
| Shareholders' equity | **$ 74,578** | 31,691 | 15,261 | 15,898 | 16,203 |




Sulpetro's 1979 Annual Report was judged third best in the Junior Exploration and Production Companies Division at Oilweek's Fifth Annual Report Awards.

## Directors

G. A. Van Wielingen, Chairman, Calgary, Alberta

R. A. Merton, Vice-Chairman, Bermuda

J. B. Ballem, Q.C., Calgary, Alberta

R. A. N. Bonnycastle, Calgary, Alberta

D. J. Butters, New York, New York

S. Chilewich, New York, New York

M. A. Crowe, Portland, Ontario

Dr. R. Freudenberg, Heidelberg, West Germany

N. E. Frost, Calgary, Alberta

D. L. Redman, Calgary, Alberta

J. P. Saunders, Calgary, Alberta

## Officers

G. A. Van Wielingen, Chairman of the Board and Chief Executive Officer

J. P. Saunders, President and Chief Operating Officer

N. E. Frost, Executive Vice-President

J. G. Fletcher, Senior Vice-President, Finance and Administration

R. L. Harrop, Senior Vice-President, Planning and Production

L. S. Manz, Senior Vice-President, Land and Exploration

D. J. Bobyn, Vice-President, Engineering and Development

R. S. Marshall, Vice-President, Operations

M. W. Mychaluk, Vice-President, Land and Contracts

W. L. Mitzel, Treasurer

M. A. Nazarchuk, Corporate Secretary

M. W. Stewart, Controller

## Corporate Information

### Head Office

3200 Bow Valley Square 3
255 Fifth Avenue S.W.
Calgary, Alberta T2P 3G6

### United States Subsidiary

Petrosil Resources Inc.
2100 Two Oaks Plaza
6730 LBJ Freeway
Dallas, Texas 75240

### Other Subsidiaries

Canusa Oil & Gas Ltd.
SOC Oil & Gas Ltd.
Sulaero Limited

### Affiliates

International Energy Development Corporation
18 Rue Le Corbusier
CH-1208, Geneva, Switzerland

### Bankers

The Royal Bank of Canada
Calgary, Alberta

### Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

### Solicitors

Ballem, McDill & MacInnes
Calgary, Alberta

### Registrars and Transfer Agents

The Canada Trust Company
Calgary, Alberta

### Stock Exchange Listings

Alberta Stock Exchange
Toronto Stock Exchange

Ronalds Western
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